NEW CENTURY FINANCIAL CORP
Form 10-K
February 25, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2001

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission File Number 000-22633

NEW CENTURY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction incorporation or organization)**	**33-0683629** **(I. R. S. Employer Identification Number)**
18400 Von Karman, Suite 1000, Irvine, California **(Address of principal executive offices)**	**92612** **(Zip Code)**

Registrant s telephone number, including area code: (949) 440-7030

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.01 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

The aggregate market value of Common Stock held by non-affiliates of the Registrant on February 14, 2002 was approximately $126 million based on the closing sales price for the Common Stock on such date of $14.14 as reported on the Nasdaq National Market.

As of February 14, 2002, the Registrant had 20,635,981 shares of Common Stock outstanding.

PART III incorporates information by reference from the Registrant s definitive Proxy Statement for its 2002 Annual Meeting of Stockholders to be filed with the Commission within 120 days of December 31, 2001.

PART I

Item 1. *Business*

General

We are a leading nationwide specialty mortgage banking company that originates, purchases and sells residential mortgage loans secured primarily by first mortgages on single-family residences. We offer mortgage products that focus on borrowers who generally do not satisfy the credit, documentation or other underwriting standards prescribed by conventional mortgage lenders and loan buyers, such as Fannie Mae and Freddie Mac. We originate and purchase loans on the basis of the borrower s ability to repay the mortgage loan, the borrower s historical pattern of debt repayment and the amount of equity in the borrower s property (as measured by the borrower s loan-to-value ratio, or LTV). We have been originating and purchasing these types of loans since 1996 and believe we have developed a comprehensive and sophisticated process of credit evaluation and risk-based pricing that allows us to effectively manage the potentially higher risks associated with this segment of the mortgage industry.

Our borrowers generally have considerable equity in the properties securing their loans, but have impaired or limited credit profiles or higher debt-to-income ratios than traditional mortgage lenders allow. Our borrowers also include individuals who, due to self-employment or other circumstances, have difficulty verifying their income through conventional methods, and who prefer the prompt and personalized service we provide.

We originate and purchase approximately 80% of our loans through our wholesale network of 9,900 independent mortgage brokers, and the remainder through our retail network of 65 branch offices located in 25 states, our central retail unit and through our anyloan.com website. Although a significant percentage of our loans are originated in California, we are authorized to do business in all 50 states and regularly originate and purchase loans throughout the country. Wholesale originations and purchases are through independent mortgage brokers who provide loans through the Wholesale Division of our subsidiary, New Century Mortgage Corporation, as well as its subsidiary, Worth Funding. Retail originations occur through our network of branch offices, through our Central Retail Division and through our subsidiary, The Anyloan Company s strategic alliances with mortgage companies and other financial institutions.

Historically, our loan sales strategy focused on a balanced combination of securitizations and whole loan sales in order to achieve our goal of enhancing profits while managing cash flows. However, our previous securitizations required us to make significant investments of cash at the time of securitization, and were not expected to generate significant cash flow to us for an extended period. In fiscal 2000, we changed our loan sales strategy to selling our loans in a way so as to optimize cash revenue and improve liquidity. To effect this strategy, we sold loans through whole loan sale transactions and cash flow-positive securitizations. Whole loan sale transactions enable us to generate current cash flow, protect against the potential volatility of the securitization market and reduce the risks inherent in retaining residual interests. Recent changes in market conditions have also allowed us to generate cash revenues from securitizations. In our 2001 securitizations, we employed a structure that allowed us to receive initial cash proceeds similar to those received through whole loan sales completed during this same period. For our 2001 sales transactions, 84.0% were whole loan sales while the remainder were cash flow-positive securitizations. We expect to continue to employ a combination of whole loan sales and cash flow-positive securitizations in order to maximize our operating flexibility and to maintain multiple loan sales channels.

Recent Operational Highlights

We have implemented several strategic initiatives that have reduced our risk profile and significantly improved our operating performance and financial results. These initiatives allowed us to achieve our goal of positive cash flow from operations for 2001. These key initiatives include:

> *Transition to Cash Flow-Positive Loan Sales Strategy.* As part of our strategy to improve cash flows, beginning in the first quarter of 2000, we transitioned from securitizing the majority of our loans to

selling the majority of production for cash in whole loan sales and, beginning in 2001, cash flow-positive securitizations. To that end, during the year ended December 31, 2001, we completed whole loan sales of $4.7 billion and two securitizations totaling $898 million, with accompanying net interest margin securities, or NIMS. The net cash proceeds from the securitizations and accompanying NIMS resulted in cash proceeds in amounts similar to whole loan sales. This transition increased our cash revenues and reduced our need for additional capital or borrowings in order to fund operations. We plan to continue to execute loan sales strategies that optimize cash revenues and liquidity.

Restructured and Reduced Debt. In March 2001, we restructured nearly all of our residual financing, which eliminated our exposure to margin calls on that debt. In addition, during 2001, we repaid $96.9 million in residual financing and extended the maturity of our subordinated debt to December 31, 2003, which allowed us to more closely match our payment obligations with the projected cash flows from our residual interests. We expect to repay all outstanding residual financing by the end of the third quarter of 2002.

Reduction of Loan Acquisition Costs. We reduced our loan acquisition costs to 2.27% of loan production for the quarter ended December 31, 2001 from 2.69% for the quarter ended December 31, 2000. Loan acquisition costs are the fees paid to wholesale brokers and correspondents, plus direct loan origination costs (including commissions and corporate overhead costs), less the sum of points and fees received from borrowers, divided by total production volume. We achieved this reduction in our loan acquisition costs through a combination of: (i) decreasing corporate overhead and commission expense; (ii) reducing marketing costs; (iii) consolidating operations; (iv) managing premiums paid to wholesale brokers and correspondent lenders; (v) closing unprofitable branches; and (vi) increasing our loan origination volume.

Sale of Servicing Rights. In March 2001, we sold to Ocwen Federal Bank FSB, one of the country s highest rated special servicers, for $19.7 million, the servicing rights on $4.8 billion of our servicing portfolio which was comprised of 25 separate asset-backed securities. Ocwen also reimbursed us for our outstanding servicing advance receivables and assumed responsibility for all future servicing advance obligations on the purchased securities. We used the sale proceeds to: (i) repay the portion of our warehouse line of credit that was secured by servicing advances; (ii) repay the outstanding balance of $22.5 million under our working capital line of credit with U.S. Bank; and (iii) increase our liquidity.

Raised Capital. In July 2001, we completed a private placement managed by Friedman, Billings, Ramsey, Inc. of 1.44 million shares of common stock. We received approximately $14 million of new capital after all costs and expenses. In October 2001, we completed a follow-on public offering with Friedman, Billings, Ramsey, Inc. as lead underwriter and Jefferies and Company, Inc. and Advest, Inc. as co-underwriters. Due to a strong demand for the shares, the offering was increased from 3.0 to 3.5 million shares at $11.00 per share, including the sale of 300,000 shares by certain selling stockholders. The underwriters elected to exercise their option to purchase an additional 525,000 shares from us to cover over-allotments. We received approximately $38 million of new capital after deducting offering expenses. We intend to use the net proceeds for general corporate purposes, including an increase in our capital base to support expansion of credit facilities and additional growth.

Improved Underwriting Controls. We implemented a process designed to monitor and adjust our underwriting guidelines to originate loans that are widely accepted by loan buyers. We also took steps to further reduce documentation errors, better identify borrower misrepresentation and reduce early payment default with the goal of decreasing the number of loans sold at a discount.

Management Reorganization. During the first quarter of 2001, we announced several senior management changes designed to improve accountability and increase the efficiency of our operations. Most notably, Brad Morrice, our Vice Chairman and President, assumed the additional role of Chief Operating Officer and also became the sole Chairman and Chief Executive Officer of our subsidiary, New Century Mortgage.

Growth and Operating Strategies

The following are our growth and operating strategies:

Increase Loan Originations. We plan to pursue geographic expansion of our wholesale business, particularly into the Northeast and Mid-Atlantic areas of the country. Our Wholesale Division can expand quickly into new markets with limited investment in infrastructure. For retail expansion, we will continue our practice of reviewing demographic information about potential markets and opening branches in markets that we conclude can support a retail branch. We plan to continue to deploy new marketing and technology initiatives and expand our product line and sales personnel in an effort to increase our existing market penetration.

Develop Strategic Alliance Program. We are developing a strategic alliance program to provide our products to customers of banks, thrifts and other financial institutions and mortgage companies who do not offer such products. We hired a team of individuals during 2001 with extensive experience developing such alliances. We began originating loans under this program in December 2001.

Continue to Emphasize Cash Flow-Positive Operations. We plan to continue to focus our secondary marketing on sales strategies that will optimize revenues and cash flow. We also intend to continue to utilize securitization structures that generate cash in excess of origination costs, as well as selected sales of servicing rights.

Optimize Net Interest Income. Our current levels of cash, capital and financing sources allow us to hold loans for a longer period of time prior to sale or securitization. We earn net interest income on loans held for sale as a result of the spread between the interest rate that we pay on our warehouse and aggregation lines and the interest rate we receive on our loans. As a result, by optimizing the number of days that we hold the loans prior to sale, we will optimize the amount of interest income that we earn.

Reduce Loans Sold at a Discount. We are devoting significant efforts to reduce the losses that result from loans we sell at a discount to par value. Loans are typically sold at a discount when (i) there are documentation deficiencies, (ii) the loans have characteristics that are outside the guidelines of whole loan buyers, or (iii) the borrower defaults on the first payment. In order to accomplish these objectives, we appointed a corporate level Chief Credit Officer, improved the analytics used in evaluating discount loans and eliminated products resulting in disproportionately high levels of discount loans. While loans sold at a discount increased for the year ended December 31, 2001 compared to 2000, they decreased during 2001, from over $190 million in the first half of 2001 to $46 million in the second half.

Continue to Manage Loan Acquisition Costs. We continue to focus our efforts on reducing our loan acquisition costs by improving efficiencies and increasing loan origination volume. In the fourth quarter of 2001, our loan acquisition cost was 2.27% of loan originations. While we continue to focus on reducing operating expenses, we are not expecting further decreases in this measure during the first few quarters of 2002, due to the fact that the percentage of production from Wholesale continues to grow and Wholesale has slightly higher loan acquisition costs. In addition, we plan to invest in the technology, training and other infrastructure necessary to support future growth, improve loan quality and set the stage for future cost reductions.

Pay Off Residual Financing. As of December 31, 2001, we owed approximately $79.9 million in residual financing to Salomon Smith Barney. This financing matures on December 31, 2002. However, we expect to repay all outstanding residual financing by the end of the third quarter of 2002. Upon the full repayment of the residual financing, we will be able to retain all of the cash flow from the residual interests. This will reduce the interest expense that we incur and, as a result, enhance our operating results.

Re-establish Servicing Platform. We intend to re-establish our servicing operations in 2002. To that end, we have hired our former Senior Vice President of Servicing who is in turn recruiting an experienced team of managers. We believe that establishing in-house servicing capability will enhance our value as a full-service mortgage banking franchise, and that it will provide an additional source of revenue and profits. During the period we are rebuilding servicing, we intend to continue to use Ocwen to service our new originations. We also expect to continue to sell to Ocwen a significant volume of servicing rights in 2002. We anticipate that we will begin boarding some production on our servicing platform in the fourth quarter of 2002.

Strengths and Competitive Advantages

We believe that we have several strengths and competitive advantages that will allow us to compete effectively in our business, including:

Management Experience and Depth. The members of our senior management team have on average over 18 years of experience in the consumer finance sector.

High Quality Customer Service. We strive to make the origination process easy for our borrowers and brokers by providing prompt responses, consistent and clear procedures and an emphasis on ease of use.

Strong Secondary Market Relationships. We have developed relationships with a variety of large institutional loan buyers, including Salomon Smith Barney, CSFB, Morgan Stanley and Deutsche Bank, who consistently bid on and buy large loan pools from us.

Advanced Technology for Credit Evaluation. The implementation of our proprietary credit grading and pricing engines has allowed us to produce a more consistent and predictable portfolio of loans.

Award-Winning Website. E-Qual, our Wholesale Division s website won the 2000 Website of the Year Award from Mortgage Technology Magazine. The site s features make the loan process easier for our brokers which in turn helps to solidify our relationships with them.

Significant Cash Flows from Residuals. Our residual interests provide significant cash flows that we expect will allow us to repay our long-term debt aggressively. Once the debt has been repaid, we expect that the continued cash flow from residual interests will provide significant growth and operating capital in the future.

Product Types

We offer both fixed-rate and adjustable-rate loans, or ARMs. We also offer loans with an interest rate that is initially fixed for a period of time and that subsequently converts to an adjustable-rate. Most of the ARMs that we originate are offered at a low initial interest rate, sometimes referred to as a start rate. At each interest rate adjustment date, we adjust the rate, subject to certain limitations on the amount of any single adjustment and a cap on the aggregate of all adjustments.

In addition, our products are available at different interest rates and with different origination and application points and fees depending on the particular borrower s risk classification (see Business Underwriting Standards). Borrowers may choose to increase or decrease their interest rate through the payment of different levels of origination fees. Many of our fixed-rate borrowers, in particular, choose to buy down their interest rate through the payment of additional origination fees. Our maximum loan amounts are generally $500,000 with a loan-to-value ratio of up to 80%. We do, however, offer larger loans with lower loan-to-value ratios on a case-by-case basis. We also offer products that permit a loan-to-value ratio of up to 95% for selected borrowers with a risk classification of A+ or of up to 90% for selected borrowers with a risk classification of A- . We have also introduced our Prime Alternative product designed to appeal to borrowers of higher credit quality.

Loans originated or purchased by us during 2001 had an average loan amount of approximately $138,000 and an average loan-to-value ratio of approximately 78.7%. If permitted by applicable law and agreed to by the borrower, our loans may also include a prepayment charge that is triggered by the loan s full or substantial prepayment early in the loan term. Approximately 84.2% of the loans we originated or purchased during 2001 included some form of prepayment charge.

Loan Originations and Purchases

We originate and purchase loans through the New Century Mortgage Wholesale Division, Retail Branch Operations Division, Central Retail Division, and through Worth Funding, a wholly-owned subsidiary of New Century Mortgage. In late 2001, we began originating loans through The Anyloan Company, another subsidiary of New Century Financial Corporation. These divisions originate and purchase loans as follows:

The Wholesale Division originates and purchases loans through a network of independent mortgage brokers and correspondents solicited by our account executives. These account executives provide on-site customer service to the broker to facilitate the funding of the loan.

Worth Funding originates and purchases loans by soliciting and servicing brokers through its centralized telemarketing approach, operating from a central office where all decisions can be made promptly.

The Retail Branch Operations Division originates loans direct to the consumer through 65 retail branch offices located in 25 states.

The Central Retail Division originates loans nationwide through one central office. Leads are generated through radio, direct mail, telemarketing, and the Internet.

The Anyloan Company originates loans by developing alliances with mortgage companies and other financial institutions that do not offer our products.

Characteristics of the loans we originated and purchased during 2001 include:

66.3% were to borrowers within our three highest credit grades even though our underwriting guidelines include six levels of credit risk classifications;

93.2% were secured by the primary residences of our borrowers;

99.3% were secured by first mortgages and the remainder were secured by second mortgages; and

82.9% were refinances of existing loans, while the remaining 17.1% represented loans for a borrower s purchase of a residential property.

Wholesale and Worth Funding

During 2001, our wholesale originations and purchases totaled $5.1 billion, or 81.2% of our total loan production, including $439.4 million, or 7.0%, which was originated through Worth Funding. As of December 31, 2001, the Wholesale Division operated through five regional operating centers located in Southern California, Northern California, Schaumburg, Illinois, Greenwood Village, Colorado, and Tampa, Florida. The Wholesale Division also operated through 31 additional sales offices located in Alabama, California, Florida, Georgia, Idaho, Indiana, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Missouri (2), Nevada, New Mexico, Ohio (3), Oregon, Rhode Island, South Carolina, Tennessee, Texas (2), Utah, Virginia, Washington (2), West Virgina and Wisconsin (2). As of December 31, 2001, the Wholesale Division employed 209 account executives.

As of December 31, 2001, approximately 9,900 mortgage brokers were approved by us to submit loans. We originated loans through approximately 6,000 brokers during 2001. During this period, our ten largest producing brokers originated 5.7% of our wholesale production.

In wholesale originations, the broker s role is to identify the applicant, assist in completing the loan application form, gather necessary information and documents and serve as our liaison with the borrower through the lending process. We review and underwrite the application submitted by the broker, approve or deny the application, set the interest rate and other terms of the loan and, upon acceptance by the borrower and satisfaction of all conditions imposed by us, fund the loan. Because brokers conduct their own marketing and employ their own personnel to complete loan applications and maintain contact with borrowers, originating loans through the Wholesale Division allows us to increase loan volume without incurring the higher marketing, labor and other overhead costs associated with increased retail originations.

Mortgage brokers generally submit loan applications to an account executive in one of our sales offices. The sales office then forwards the application to the closest regional operating center where the loan is logged in for regulatory compliance purposes, underwritten and, in most cases, conditionally approved or denied within 24 hours of receipt. Because mortgage brokers generally submit individual loan files to several prospective lenders simultaneously, we attempt to respond to each application as quickly as possible. If approved, we issue a conditional approval to the broker with a list of specific conditions that have to be met (for example, credit verifications and independent third party appraisals) and additional documents to be supplied prior to the funding of the loan. An account manager and the account executive who originated the loan work directly with the submitting mortgage broker to collect the requested information and to meet the underwriting conditions and other requirements. In most cases, we fund loans within 30 days after approval of the application.

The Wholesale Division also purchases closed loans on an individual or flow basis from independent mortgage brokers and financial institutions. We review an application for approval from each lender that seeks to sell us a closed loan. We analyze the mortgage broker s underwriting guidelines and financial condition, including its licenses and financial statements. We require each mortgage broker to enter into a purchase and sale agreement with customary representations and warranties regarding the loans such mortgage broker will sell to us. These representations and warranties are comparable to those given by us, through our subsidiary, NC Capital, to our loan purchasers.

The following table sets forth selected information relating to loan originations through the Wholesale Division and Worth Funding during the periods shown:

	For the Quarters Ended			
	March 31, 2001	**June 30, 2001**	**September 30, 2001**	**December 31, 2001**
Principal balance (in thousands)	$ 807,954	$ 1,103,235	$ 1,493,309	$ 1,663,968
Average principal balance per loan (in thousands)	$ 140	$ 143	$ 150	$ 153
Combined weighted average initial loan-to-value ratio	78.4%	78.8%	79.2%	79.2%
Percent of first mortgage loans	98.7	99.5	100.0	100.0
Property securing loans:				
Owner occupied	92.1	91.7	93.1	93.3
Non-owner occupied	7.9	8.3	6.9	6.7
Weighted average interest rate:				
Fixed-rate	10.5	9.7	9.4	8.7
ARMs	9.9	9.6	9.3	9.1
Margin ARMs	6.5	6.6	6.6	6.7

Retail Branch Operations Division, Central Retail Division and The Anyloan Company.

During 2001, the Retail Branch Operations Division originated $868.4 million in loans, or 13.9% of our total loan production. As of December 31, 2001, the Retail Branch Operations Division employed 288 retail loan officers. These employees were located in 65 sales offices in Arizona (3), California (18), Colorado, Florida (4), Georgia, Hawaii, Illinois (2), Kentucky, Louisiana, Massachusetts, Michigan, Minnesota (2), Missouri (2), Montana, Nevada (2), New Jersey, New Mexico, Ohio (3), Oklahoma, Oregon (2), Pennsylvania (2), Texas (8), Utah, Virginia (2), and Washington (3).

During 2001, the Central Retail Division originated $307.3 million, or 4.9%, of our total loan production. As of December 31, 2001, the Central Retail Division employed 82 loan officers at its offices in Irvine, California.

During 2001, The Anyloan Company, which began its lending activities in November 2001, originated $846,000 in loans. As of December 31, 2001, The Anyloan Company employed 4 loan officers at its offices in Irvine, California.

By creating a direct relationship with the borrower, retail lending provides a more sustainable loan origination franchise and greater control over the lending process. Loan origination fees contribute to profitability and cash flow and offset the higher costs of retail lending.

The following table sets forth selected information relating to loan originations through the Retail Branch Operations Division, Central Retail Division and The Anyloan Company during the periods shown:

	For the Quarters Ended			
	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Principal balance (in thousands)	$ 218,579	$ 280,684	$ 322,220	$ 355,022
Average principal balance per loan (in thousands)	$ 95	$ 104	$ 113	$ 117
Combined weighted average initial loan-to-value ratio	76.1%	78.2%	77.7%	77.9%
Percent of first mortgage loans	95.2	96.9	98.4	99.2
Property securing loans:				
Owner occupied	96.6	96.7	97.2	97.0
Non-owner occupied	3.4	3.3	2.8	3.0
Weighted average interest rate:				
Fixed-rate	10.8	10.6	9.9	9.1
ARMs	10.1	9.6	9.5	9.2
Margins ARMs	6.4	6.5	6.7	6.6

Marketing

Wholesale Division and Worth Funding Marketing

The marketing strategy of the Wholesale Division of New Century Mortgage and of Worth Funding focuses on the sales efforts of their account executives, and on providing prompt, consistent service to brokers and their customers. These efforts are supplemented with direct mail and fax programs to brokers, advertisements in trade publications, in-house production of collateral sales material, seminar sponsorships, tradeshow attendance, periodic sales contests and the Wholesale Division s e-commerce website.

Retail Branch Marketing

The Retail Branch Operations Division of New Century Mortgage relies primarily on targeted direct mail and outbound telemarketing to attract borrowers. New Century Mortgage s direct mail programs are managed by a centralized staff who create a targeted mailing list for each branch market and oversee the completion of mailings by a third party mailing vendor. All calls or written inquiries from potential borrowers that result from the mailings are tracked centrally and then forwarded to each branch location and handled by branch loan officers. This division s website (www.newcenturymortgage.com) is used in the direct mail program to provide information to prospective borrowers and to allow them to complete an application online. Under the Central Telemarketing Program, the telemarketing staff solicits prospective borrowers, makes a preliminary evaluation of the applicant s credit and the value of the collateral property and refers qualified leads to loan officers in the retail branch closest to the customer.

Central Retail Marketing

The Central Retail Division of New Century Mortgage engages in a variety of direct response advertising, such as purchased leads from aggregators, radio advertising, direct mail, search engine placement, banner ads, e-mail campaigns and links to related websites. The Central Retail Division also markets to the current customer base of New Century Mortgage through direct mail and outbound telemarketing. In addition, this division maintains a comprehensive database on all customers with whom it has had contact and markets to these potential customers in an effort to convert them to application.

Financing Loan Originations and Loans Held for Sale

We require access to credit facilities in order to originate and purchase mortgage loans and to hold them pending their sale or securitization. In particular, we rely on a $300 million syndicated warehouse credit facility led by U.S. Bank and a $200 million warehouse and aggregation facility with CDC Mortgage Capital to fund our originations and purchases. We also rely on aggregation financing facilities totaling $1.2 billion with Salomon Brothers Realty Corp. and Morgan Stanley Dean Witter Mortgage Capital to finance the loans pending their sale or securitization. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Underwriting Standards

We originate or purchase our mortgage loans in accordance with the underwriting guidelines described below. The loans we originate or purchase generally do not satisfy conventional underwriting standards, such as those utilized by Fannie Mae or Freddie Mac. Therefore, our loans are likely to have higher delinquency and foreclosure rates than portfolios of mortgage loans underwritten to conventional Fannie Mae and Freddie Mac standards.

Our underwriting guidelines take into account the applicant s credit history and capacity to repay the proposed loan as well as the secured property s value and adequacy as collateral for the loan. Each applicant completes an application that includes information on the applicant s liabilities, income, credit history, employment history and personal information. Based on review of the loan application and other data from the applicant against our underwriting guidelines, we determine the loan terms, including the interest rate and maximum loan-to-value ratio.

Credit History

Our underwriting guidelines require a credit report on each applicant from a credit reporting company. In evaluating an applicant s credit history, we utilize credit bureau risk scores, or a FICO score, which is a statistical ranking of likely future credit performance developed by Fair, Isaac & Company and the three national credit data repositories Equifax, TransUnion and Experian.

Collateral Review

All mortgaged properties are appraised by qualified independent appraisers prior to the loan s funding. The appraiser inspects and appraises the property and verifies that it is in acceptable condition. Following each appraisal, the appraiser prepares a report that includes a market value analysis based on recent sales of comparable homes in the area and, when deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. All appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and are generally on forms acceptable to Fannie Mae and Freddie Mac. Our underwriting guidelines require a review of the appraisal by one of our qualified employees or by a qualified review appraiser that we have retained. Our underwriting guidelines then require our underwriters to be satisfied that the value of the property being financed, as indicated by the appraisal, currently supports the outstanding loan balance.

Income Documentation

Our underwriting guidelines include three levels of income documentation requirements, referred to as the full documentation, limited documentation and stated income documentation programs. Under the full documentation program, applicants generally are required to submit two written forms of verification of stable income for at least twelve months. Under the limited documentation program, applicants are generally required to submit twelve consecutive monthly bank statements on their individual bank account. Under the stated income documentation program, an applicant may be qualified based upon monthly income as stated on the mortgage loan application if the applicant meets certain criteria. All of these documentation programs require that, with respect to salaried employees, the applicant s employment be verified by telephone. In the case of a purchase money loan, verification of the source of funds, if any, to be deposited by the applicant into escrow is required. Under each of these programs, we review the applicant s source of income, calculate the amount of income from sources indicated on the loan application or similar documentation, review the applicant s credit history, calculate the debt service-to-income ratio to determine the applicant s ability to repay the loan, review the type and use of the property being financed, and review the property. Our underwriters use a qualifying rate that is equal to the initial interest rate on the loan, in determing the applicant s ability to repay an adjustable-rate loan.

Underwriting Requirements

In general, the maximum loan amount for our mortgage loans is $500,000. Our underwriting guidelines permit loans on one-to-four-family residential properties to have:

a loan-to-value ratio at origination of up to 95% with respect to non-conforming first liens;

a combined loan-to-value ratio at origination of up to 100% with respect to non-conforming second liens; and

a combined loan-to-value ratio at origination of up to 100% with respect to conforming second liens.

The applicability of the above ratios depends on, among other things, the purpose of the mortgage loan, a borrower s credit history, the borrower s repayment ability and debt service-to-income ratio, and the type and use of the property. The loan-to-value of a mortgage loan that is secured by mortgaged properties acquired by a borrower under a lease option purchase is determined in one of two ways. If the lease option price was set less than twelve months prior to origination, the loan-to-value of the related mortgage loan is based on the lower of the appraised value at the time of origination of the mortgage loan or the sale price of the related mortgaged property. If the lease option price was set twelve months or more prior to origination, the loan-to-value of the related mortgage is based on the appraised value at the time of origination.

Our underwriting guidelines for first lien mortgage loans have the following categories and criteria for grading the potential likelihood that an applicant will satisfy the repayment obligations of a mortgage loan:

Summary of Principal Underwriting Guidelines (1)

	Prime Alternative	**A+ Risk**	**A- Risk**	**B Risk**	**C Risk**	**C- Risk**
Existing mortgage history	Maximum one 30 day late payment w/in last 12 months.	Maximum one 30 day late payment and no 60-day late payments w/in last 12 mos.; must have an LTV of 95% or less.	Maximum three 30 day late payments and no 60 day late payments w/in last 12 mos.; must have an LTV of 90% or less.	Maximum one 60 day late payment within last 12 months; must be less than 90 days late at funding.	Maximum one 90 day late payment within last 12 months; must be less than 120 days late at funding.	Maximum of two 90 day late payments and one 120 day late payment w/in last 12 months; less than 150 days late at funding. No current Notice of Default.
Other credit	FICO score of 625 or higher.	4 accts w/30-day late payments or FICO score of 620 or higher; no more than $500 in open collection accounts or charge-offs w/in 12 mos. open after funding.	Past/Present 30 day late payments and 1 acct w/60 day late payment or FICO score of 590 or higher; no more than $1,000 in open collection accounts or charge offs w/in 12 mos. open after funding.	Past/Present 30-day late payments and 2 accts w/90 day late payments and 4 accts w/60 day late payments or FICO score of 570 or higher; no more than $2,500 in open collection accts or charge-offs w/in 12 mos. open after funding.	Significant prior defaults acceptable; Generally, no more than $5,000 in open collection accounts or charge-offs w/in 12 mos. Open after funding; on a case by case basis.	Significant prior defaults acceptable; collection accounts may remain open after funding.
Bankruptcy filings	Generally, no Chapter 7 or 13 Bankruptcy discharge in last 2 years or Notice of Default in last 2 years.	Generally, no Chapter 7 or 13 Bankruptcy discharge in last 2 years or Notice of Default in last 3 years.	Generally, no Bankruptcy filings in last 2 years or Notice of Default filings in last 3 years.	Generally, no Bankruptcy discharge in last 18 months or Notice of Default filings in last 2 years.	Generally, no Bankruptcy or Notice of Default filings in last 12 months.	Chapter 7 Bankruptcy discharge in last 12 mos. Chapter 13 Bankruptcy filing allowed in last 12 months and no current NOD.

(Continued)

	Prime Alternative	**A+ Risk**	**A- Risk**	**B Risk**	**C Risk**	**C- Risk**
Total debt service to income Ratio	Up to 50%	45% to 50%	50% to 55%	55% to 59%	55% to 59%	50% to 59%
Maximum loan-to-value ratio (LTV):(2) Owner	90%	95%	90%	85%	75%	70%
Occupied: single family; detached PUD, or 2- unit Owner	80%	85%	85%	75%	70%	65%
Occupied: condo/three-to-four unit						
Non owner occupied	Not applicable	85%	80%	75%	70%	65%

(1) The letter grades applied to each risk classification reflect our internal standards and do not necessarily correspond to the classifications used by other mortgage lenders.
(2) The maximum LTV set forth in the table is for borrowers providing full documentation. The LTV is reduced 5% for stated income applications, if applicable. Additionally, if the borrower s FICO score meets or exceeds the risk category and debt ratio guidelines, consumer credit may be disregarded.

Prime Alternative Program

In 2000, we introduced a Prime Alternative Program to attract higher quality Alternative A types of borrowers. We assess the borrower s mortgage repayment history, any incidents of bankruptcy, mortgage default, or major derogatory credit, and call for a minimum FICO score of 625, which is substantially higher than our core product requirements. This program is restricted to owner-occupied properties; single unit, two unit, condominiums or detached PUD s. We have limitations on loan amount, loan-to-value ratio, income documentation type, and the amount of cash out allowed on refinances.

Mortgage Credit Only Program

In addition to the six risk grade categories described above, New Century Mortgage also has a Mortgage Credit Only program. This program uses the applicant s mortgage payment history as the primary factor in qualifying the applicant s ability to repay the loan. The Mortgage Credit Only program allows no more than three 30-day late payments and no 60-day late payments within the last 12 months on an existing mortgage loan and must be current at funding. An existing mortgage loan is not required to be current at the time the application is submitted. Derogatory credit report items are allowed as to non-mortgage credit. In order to qualify for a Mortgage Credit Only loan:

The borrower may not be a participant in our Stated Income Documentation program;

No bankruptcy or notice of default filings may have occurred during the preceding two years, unless the borrower s bankruptcy has been discharged during the past two years and the borrower has re-established a credit history that otherwise complies with the credit parameters set forth above; and

The mortgaged property must be in at least average condition. A maximum loan-to-value of 85% is permitted for a mortgage loan on a single family owner occupied property. A maximum loan-to-value of 80% is permitted for a mortgage loan on a non-owner occupied property, second home, owner occupied condominium, or two- to four-family residential property. The debt service-to-income ratio is generally limited to a maximum of 55%.

Home Saver Program

We have established a sub-category of our C- credit grade for borrowers faced with at least one of the following credit scenarios: (i) the borrower has an existing mortgage currently in foreclosure; (ii) the borrower is subject to a notice of default filing; or (iii) the borrower has had a serious mortgage delinquency for more than one 120 day period in the last 12 months or is more than 90 days late at the time of funding. This sub-category is known as our Home Saver Program. The Home Saver Program is available only to Full Documentation borrowers and permits a maximum loan-to-value of 65% and a maximum debt service-to-income ratio of 55%. The maximum loan is $300,000 and all derogatory credit report items must either be brought current or paid through the loan proceeds. A maximum of 3% of the loan proceeds may be paid to the borrower in cash. If the borrower is in an open Chapter 13 bankruptcy, the bankruptcy must be discharged through the proceeds of the loan. As of December 31, 2001, Home Saver loans accounted for 1.1% of total loan originations and purchases.

Exceptions

The categories and criteria described in our underwriting guideline table above are guidelines only. On a case-by-case basis, we may determine that an applicant warrants a loan-to-value exception, a debt service-to-income ratio exception, or another exception. We may allow such an exception if the application reflects certain compensating factors such as low LTV, a maximum of one 30-day late payment on all mortgage loans during the last 12 months, and stable employment or ownership of current residence. We may also allow an exception if the applicant places a down payment through escrow of at least 20% of the purchase price of the mortgage property or if the new loan reduces the applicant s monthly aggregate mortgage payment. Our automated credit grading system aids in identifying and managing underwriting exceptions. Certain of our loan programs and risk grade classifications limit the approval of exceptions to higher loan approval authority levels.

We evaluate our underwriting guidelines on an ongoing basis and periodically modify them to reflect our current assessment of various underwriting issues. We also maintain separate underwriting guidelines appropriate to our non-conforming second lien mortgage loans and adopt new underwriting guidelines appropriate to new loan products we offer.

Loan Production by Borrower Risk Classification

The following table sets forth information concerning the characteristics of our fixed-rate and adjustable-rate loan production by borrower risk classification for the periods shown:

	For the Quarters Ended			
	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Prime Alternative Risk Grade:				
Percent of total purchases and originations	1.9%	3.1%	3.3%	3.6%
Combined weighted average initial loan-to-value ratio	80.0	79.9	78.6	76.0
Weighted average interest rate:				
Fixed-rate	9.7	9.4	9.1	8.0
ARMs	8.9	8.7	8.6	8.3
Margin ARMs	5.3	5.9	6.4	6.3
A+ Risk Grade:				
Percent of total purchases and originations	39.3%	43.9%	47.3%	47.3%
Combined weighted average initial loan-to-value ratio	81.1	81.4	81.5	81.8
Weighted average interest rate:				
Fixed-rate	10.3	9.6	9.2	8.5
ARMs	9.5	9.2	9.0	8.6
Margin ARMs	6.2	6.3	6.4	6.4
A- Risk Grade:				
Percent of total purchases and originations	26.9%	22.6%	21.1%	21.0%
Combined weighted average initial loan-to-value ratio	78.1	78.5	78.4	78.1
Weighted average interest rate:				
Fixed-rate	10.6	10.1	9.9	9.3
ARMs	9.8	9.5	9.3	9.0
Margin ARMs	6.6	6.6	6.7	6.7
B Risk Grade:				
Percent of total purchases and originations	21.9%	21.9%	20.8%	20.8%
Combined weighted average initial loan-to-value ratio	75.8	77.1	77.4	77.2
Weighted average interest rate:				
Fixed-Rate	10.9	10.4	10.2	9.8
ARMs	10.1	9.8	9.7	9.5
Margin ARMs	6.8	6.8	6.9	6.9
C Risk Grade:				
Percent of total purchases and originations	6.5%	5.9%	5.4%	5.3%
Combined weighted average initial loan-to-value ratio	71.5	71.3	71.0	71.9
Weighted average interest rate:				
Fixed-rate	12.3	11.5	10.9	10.6
ARMs	11.2	10.8	10.6	10.4
Margin ARMs	7.0	7.1	7.2	7.2
C- Risk Grade:				
Percent of total purchases and originations	3.5%	2.6%	2.1%	2.0%
Combined weighted average initial loan to value ratio	64.0	61.4	62.7	62.4
Weighted average interest rate:				
Fixed-rate	12.8	12.8	12.4	11.5
ARMs	12.4	12.1	11.8	11.6
Margin ARMs	7.1	7.2	7.3	7.2

Geographic Distribution

The following table sets forth aggregate dollar amounts (in thousands) and the percentage of all loans we originated or purchased by state for the periods shown:

	For the Quarters Ended							
	March 31, 2001		June 30, 2001		September 30, 2001		December 31, 2001	
	$	%	$	%	$	%	$	%
California	$ 446,880	43.5%	$ 613,953	44.4%	$ 780,983	43.0%	$ 880,779	43.6%
Michigan	46,486	4.5	67,328	4.9	100,061	5.5	117,688	5.8
Illinois	58,690	5.7	71,378	5.2	100,315	5.5	114,018	5.7
Florida	59,743	5.8	73,877	5.3	98,074	5.4	98,888	4.9
Texas	57,979	5.7	69,379	5.0	91,335	5.0	98,249	4.9
Colorado	39,476	3.9	46,560	3.4	78,277	4.3	70,205	3.5
Massachusetts	39,577	3.9	52,055	3.8	63,547	3.5	63,205	3.1
Georgia	21,798	2.1	30,612	2.2	39,281	2.2	47,141	2.3
Ohio	17,702	1.7	27,306	2.0	41,958	2.3	44,111	2.2
Washington	14,277	1.4	32,355	2.3	34,978	1.9	37,984	1.9
Other	223,925	21.8	299,116	21.5	386,720	21.4	446,722	22.1
Total	$ 1,026,533	100.0%	$ 1,383,919	100.0%	$ 1,815,529	100.0%	$ 2,018,990	100.0%

Loan Sales and Securitizations

Our subsidiary, NC Capital Corporation, performs secondary marketing functions. NC Capital buys loans from New Century Mortgage within a week or two after origination, paying a price that approximates the loans secondary market value. NC Capital then sells the loans through both securitizations and whole loan sales. NC Capital is responsible for determining when and through which channel to sell the loans, and bears the risks of market fluctuations in the period between purchase and sale.

Whole Loan Sales

As of December 31, 2001, whole loan sales accounted for $4.7 billion, or 84.0% of our total loan sales. The weighted average sales price of our premium whole loan sales during 2001 was equal to 104.4% of the original principal balance of the loans sold, including premiums received for servicing rights.

We seek to maximize our premiums on whole loan sale revenue by closely monitoring requirements of institutional purchasers and focusing on originating or purchasing the types of loans that meet those requirements and for which institutional purchasers tend to pay higher premiums. During the year ended December 31, 2001, we sold $2.3 billion in loans to Credit Suisse First Boston Mortgage Capital LLC and $1.8 billion in loans to Morgan Stanley Dean Witter Mortgage Capital Inc., which represented 41.3% and 31.1%, respectively, of total loans sold.

Whole loan sales are made on a non-recourse basis pursuant to a purchase agreement in which we give customary representations and warranties regarding the loan characteristics and the origination process. Therefore, we may be required to repurchase or substitute loans in the event of a breach of these representations and warranties. In addition, we generally commit to repurchase or substitute a loan if a payment default occurs within the initial months following the date the loan is funded, unless we make other arrangements with the purchaser.

Securitizations

In a securitization, we sell a pool of loans to a trust for a cash purchase price and a certificate evidencing our residual interest ownership in the trust. The trust raises the cash portion of the purchase price by selling senior certificates representing senior interests in the loans in the trust. Following the securitization, purchasers of senior certificates receive the principal collected, including prepayments, on the loans in the trust. In addition, they receive a portion of the interest on the loans in the trust equal to the specified investor pass-through interest rate on the principal balance. We receive the cash flows from the residual interests, after payment of servicing fees, guarantor fees and other trust expenses, and provided the specified over-collateralization requirements are met. The use of a NIM transaction concurrent with or shortly after a securitization allows us to receive a substantial portion of the gain in cash at the closing of the NIM transaction, rather than over the actual life of the loans.

During 2001, we completed two securitizations totaling $898 million of mortgage loans (New Century Home Equity Loan Trust, Series 2001-NC1 and Series 2001-NC2). Following each securitization, we issued a net interest margin security. The initial cash proceeds from these transactions were comparable to cash proceeds we received through whole loan sales. Credit enhancement for each securitization was provided through a fully-funded over-collateralization account of 0.75%. Approximately 86% of the mortgage loans in each pool were covered by a lender paid private mortgage insurance policy for the excess of the LTV over 60%.

The following are the material assumptions used to record gain on sale for the New Century Home Equity Loan Trust, Series 2001-NC1:

	2-Year ARM	3-Year ARM	Fixed	Combined Pool
% of Pool	78.20%	6.30%	15.50%	100.00%
Weighted Average Life (in years)	2.55	2.90	3.64	2.74
Static Pool Losses	2.68%	2.26%	2.60%	2.64%
Prepayment Penalty Coverage				
1 year	4.20%	4.11%	0.90%	3.69%
2 years	74.70	2.51	2.66	58.99
3 years	6.61	61.52	6.65	10.07
4 years	0.05	14.90	0.89	1.11
5 years	0.76	1.43	53.97	9.06
Total	86.32%	84.47%	65.07%	82.92%

A summary of gain on sale and cash flow from the New Century Home Equity Loan Trust, Series 2001-NC1 is presented below:

Gain on Sale Summary	
Loans (thousands)	$ 380,242
NIM Bonds	4.08%
Residual	0.97
Less: Transaction and Other Costs	(1.30)
Less: O/C Accounts	(0.75)
Subtotal	3.00
Interest-Only Certificate	1.43
Servicing Rights	0.48
Net Gain on Sale Recorded	4.91%
Cash Flow From:	
NIM Bonds	4.08%
Interest-Only Certificate	1.43
Servicing Rights	0.48
Less: Transaction and Other Costs	(1.30)
Less: O/C Accounts	(0.75)
Net Cash Flow At Closing	3.94%

The following are the material assumptions used to record gain on sale for the New Century Home Equity Loan Trust, Series 2001-NC2:

	2-Year ARM	3-Year ARM	Fixed	Combined Pool
% of Pool	80.43%	3.22%	16.35%	100.00%
Weighted Average Life (in years)	2.55	2.89	3.63	2.74
Static Pool Losses	3.67%	4.10%	4.64%	3.84%
Prepayment Penalty Coverage				
1 year	5.00%	5.47%	1.26%	4.40%
2 years	76.64	5.70	4.78	62.61
3 years	4.71	73.43	7.73	7.42
4 years	0.03	4.39	0.93	0.32
5 years	1.05	2.27	56.47	10.15
Total	87.43%	91.26%	71.17%	84.90%

A summary of gain on sale and cash flow from the New Century Home Equity Loan Trust, Series 2001-NC2 is presented below:

Gain on Sale Summary	
Loans (thousands)	$ 518,002
NIM Bonds	4.96%
Residual	0.66%
Less: Transaction and Other Costs	(1.15%)
Less: O/C Accounts	(0.75%)
Subtotal	3.72%
Interest-Only Certificate	0.76%
Servicing Rights	0.51%
Net Gain on Sale Recorded	4.99%
Cash Flow From:	
NIM Bonds	4.96%
Interest-Only Certificate	0.76%
Servicing Rights	0.51%
Less: Transaction and Other Costs	(1.15%)
Less: O/C Accounts	(0.75%)
Net Cash Flow At Closing	4.33%

Loan Servicing and Delinquencies

Servicing

Loan servicing includes collecting and remitting loan payments, making required advances, accounting for principal and interest, holding escrow or impound funds for payment of taxes and insurance and, if applicable, contacting delinquent borrowers and supervising foreclosures and property dispositions in the event of unremedied defaults.

In March 2001, we sold the servicing rights on approximately $4.8 billion of our servicing portfolio to Ocwen Federal Bank FSB for $19.7 million. We also entered into an agreement whereby Ocwen services our remaining servicing portfolio, as well as our loans receivable held for sale. The entire transfer of our servicing portfolio was completed on August 1, 2001. As part of the transaction, we also agreed to sell Ocwen servicing rights with respect to up to $3 billion in mortgage loans between March 2001 and December 31, 2002 at a price to be determined based on the characteristics of those servicing rights. In early 2002, we fulfilled the $3 billion commitment.

In February 2002, we announced that we intend to re-establish our loan servicing platform. To that end, we have hired our former Senior Vice President of Servicing who is in turn recruiting an experienced team of managers. We believe that establishing in-house servicing capability will enhance our value as a full-service mortgage banking franchise, and that it will provide and additional source of revenue and profits. During the period we are rebuilding servicing, we intend to continue to use Ocwen to service our new originations. We also expect to continue to sell to Ocwen a significant volume of servicing rights in 2002. We anticipate that we will begin boarding some production on our servicing platform in the fourth quarter of 2002.

Delinquencies and Foreclosures

The loans we originate or purchase are secured by mortgages, deeds of trust, security deeds or deeds to secure debt, depending upon the prevailing practice in the state in which the property securing the loan is located. Depending on local law, foreclosure is effected by judicial action or non-judicial sale, and is subject to various notice and filing requirements. In general, the borrower, or any person having a junior encumbrance on the real estate, may cure a monetary default by paying the entire amount in arrears plus other designated costs and expenses incurred in enforcing the obligation during a statutorily prescribed reinstatement period. Generally, state law controls the amount of foreclosure expenses and costs, including attorney s fees, which may be recovered by a lender. After the reinstatement period has expired without the default having been cured, the borrower or junior lien-holder no longer has the right to reinstate the loan and may be required to pay the loan in full to prevent the scheduled foreclosure sale. Where a loan has not yet been sold or securitized, we will generally allow a borrower to reinstate the loan up to the date of foreclosure sale.

Although foreclosure sales are typically public sales, third-party purchasers rarely bid in excess of the lender s lien because of the difficulty of determining the exact status of title to the property, the possible deterioration of the property during the foreclosure proceedings and a requirement that the purchaser pay for the property in cash or by cashier s check. Thus, the foreclosing lender often purchases the property from the trustee or referee for an amount equal to the sum of the principal amount outstanding under the loan, accrued and unpaid interest and the expenses of foreclosure. Depending on market conditions, the ultimate proceeds of the sale may not equal the lender s investment in the property.

Delinquency Reporting

In February 1996, we began receiving applications for mortgage loans under our regular lending program. During 1996, we sold all of our loans on a whole loan, servicing-released basis. We began selling loans through securitizations in 1997. In connection with these securitizations, we established reporting systems to track historical delinquency, bankruptcy, foreclosure and default experience for the loans included in our securitizations as well as our total portfolio of loans. Current delinquency and loss information is not necessarily representative of future delinquencies and losses.

The following table provides information for the loans securitized in 1997 through 2001 that are delinquent over 60 days (dollars in thousands) expressed as a percentage of the current balance of the mortgage loans as of December 31, 2001:

				Delinquency Rate					
Risk Grade	**Original Balance**	**Current Balance**	**Orig. LTV**	**1997**	**1998**	**1999**	**2000**	**2001**	**Combined Pools**
Prime Alternative	$ 40,758	$ 22,068	79.9%	%	%	%	3.98%	0.30%	0.58%
A+	3,031,547	1,258,468	78.3	4.33	9.17	9.84	10.34	2.71	7.37
A-	2,668,761	1,044,924	77.5	8.66	13.65	15.26	13.35	4.49	12.40
B	1,631,026	679,979	74.7	11.92	17.38	21.05	22.12	5.41	15.74
C	904,420	319,483	70.4	19.76	24.94	26.05	28.69	9.70	23.82
C-	400,278	117,634	63.7	37.20	25.71	41.35	39.90	17.69	33.28
Total	$ 8,676,790	$ 3,442,556	75.9%	10.23%	14.28%	16.32%	17.98%	4.43%	12.92%

The above table indicates that, as anticipated, we are experiencing higher rates of delinquency on lower credit grade loans. In addition, we have repurchased loans from several of our securitizations. The agreements governing the securitizations permit these repurchases, but only to the extent the loans being repurchased are more than 90 days delinquent. We elected to make these repurchases in order to avoid disruption of cash flow from the trusts and to provide us with maximum flexibility in resolving problem loans. In 2002, we expect to make such repurchases from certain of our securitized pools in order to avoid a disruption in residual cash flow that would result if certain delinquency or loss levels are reached.

The pooling and servicing agreements for our securitizations typically provide us or the master servicer the right to initiate a call of all outstanding bonds once the current balance of loans in the pool falls below five or ten percent of the original principal balance. During the year ended December 31, 2001, we exercised our clean-up call for securities 1997-NC1, NC2 and NC3, resulting in the repurchase and subsequent resale of the remaining loans in these securities.

Interest Rate Risk Management Strategies

We try to mitigate interest rate risks by utilizing a variety of strategies. For instance, the interest rate that will be charged to our borrowers is locked on the day the loan funds. This allows us to price our pipeline of approved loans with current market rates. In addition, we may elect to use various financial instruments such as swaps, forwards, options, futures contracts, and other derivative instruments to mitigate interest rate risk. We may use forward loan sale commitments with a predetermined price and delivery date to sell our unsold loan inventory, which protects us from interest rate increases. In order to mitigate the adverse affects resulting from interest rate increases on our residual interests, we first forecast future interest rates utilizing the Forward LIBOR Curve. Then, we may purchase Interest Rate Cap contracts or sell Euro Dollar Futures contracts that are based on our expectations of future interest rates and cash flows. In either case, the cash flow received from the financial instrument used to mitigate interest rate risk is intended to offset the reduction in cash flow realized on our residual interests as a result of interest rate increases.

Competition

We continue to face intense competition in the business of originating, purchasing and selling mortgage loans. Our competitors include other consumer finance companies, mortgage banking companies, commercial banks, credit unions, thrift institutions, credit card issuers and insurance finance companies. Most notably, in the past two or three years, some large, diversified financial corporations have purchased several of our competitors. Other large financial institutions have gradually expanded their non-prime or sub-prime lending capabilities. Many of these companies have greater access to capital at a cost lower than our cost of capital under our warehouse, aggregation and residual financing facilities. In addition, many of these competitors have considerably greater technical and marketing resources than we have.

At the same time, the two large government-sponsored secondary market purchasers of loans, Fannie Mae and Freddie Mac, have begun purchasing some non-prime loans. This has the potential of increasing competition as lenders without prior non-prime origination expertise begin originating non-prime loans to Fannie Mae s and Freddie Mac s guidelines using their automated tools.

We also face competition from smaller, recently established wholesale mortgage banking companies that try to attract key managers and account executives as well as our key brokers.

Competition among industry participants can take many forms, including convenience in obtaining a loan, customer service, marketing and distribution channels, amount and term of the loan, loan origination fees and interest rates. Additional competition may lower the rates we can charge borrowers, thereby potentially lowering gain on future loan sales and securitizations. Our results of operations, financial condition and business prospects could be materially adversely affected to the extent any of our competitors significantly expands its activities in our markets. Fluctuations in interest rates and general economic conditions may also affect our competitive position. During periods of rising rates, competitors that have locked in low borrowing costs may have a competitive advantage. During periods of declining rates, competitors may solicit our customers to refinance their loans.

We believe that one of our key competitive strengths is our employees, with their strong commitment to customer service and their team-oriented approach. In addition to the strength of our work force, we believe that our competitive strengths include:

- providing a high level of service to brokers and their customers;
- offering competitive loan programs for borrowers whose needs are not met by conventional mortgage lenders;
- our high-volume targeted direct mail marketing program; and
- our performance-based compensation structure which allows us to attract, retain and motivate qualified personnel.

Regulation

The mortgage lending industry is a highly regulated industry. Our business is subject to extensive and complex rules and regulations of, and examinations by, various state and federal government authorities. These regulations impose obligations and restrictions on our loan origination, loan purchase and servicing activities. In addition, these regulations may limit the interest rates, finance charges and other fees that we may assess, mandate extensive disclosure to our customers, prohibit discrimination and impose multiple qualification and licensing obligations on us. Failure to comply with these requirements may result in, among other things, loss of approved licensing status, demands for indemnification or mortgage loan repurchases, certain rights of rescission for mortgage loans, class action lawsuits, administrative enforcement actions and civil and criminal liability. Our management believes that we are in compliance with these rules and regulations in all material respects.

Our loan origination and loan purchase activities are subject to the laws and regulations in each of the states in which those activities are conducted. For example, state usury laws limit the interest rates we can charge on our loans. As of December 31, 2001, we were licensed or exempt from licensing requirements by the relevant state banking or consumer credit agencies to originate first mortgages in all 50 states and the District of Columbia and second mortgages in 48 states and the District of Columbia. Our lending activities are also subject to various federal laws, including the Truth in Lending Act, or TILA, the Homeownership and Equity Protection Act of 1994, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Real Estate Settlement Procedures Act and the Home Mortgage Disclosure Act, and their implementing regulations.

We are subject to certain disclosure requirements under TILA and Regulation Z promulgated under TILA. TILA is designed to provide consumers with uniform, understandable information with respect to the terms and conditions of loan and credit transactions. TILA gives consumers, among other things, a three business day right to rescind certain refinance loan transactions that we originate.

The Homeownership and Equity Protection Act of 1994, or the High Cost Mortgage Act, amends TILA. The High Cost Mortgage Act generally applies to consumer credit transactions secured by the consumer s principal residence, other than residential mortgage transactions, reverse mortgage transactions or transactions under an open end credit plan, in which the loan has either (i) total points and fees upon origination in excess of the greater of eight percent of the loan amount or $480, or (ii) an annual percentage rate of more than ten percentage points higher than United States Treasury securities of comparable maturity. These loans are known as Covered Loans. The High Cost Mortgage Act imposes additional disclosure requirements on lenders originating Covered Loans. In addition, it prohibits lenders from, among other things, originating Covered Loans that are underwritten solely on the basis of the borrower s home equity without regard to the borrower s ability to repay the loan. The High Cost Mortgage Act also prohibits prepayment fee clauses in Covered Loans to borrowers with a debt-to-income ratio in excess of 50% or Covered Loans used to refinance existing loans originated by the same lender. In addition, the High Cost Mortgage Act restricts, among other things, certain balloon payments and negative amortization features. We commenced originating and purchasing Covered Loans during 1997 and stopped originating and purchasing them in the second quarter of 2000.

We are also required to comply with the Equal Credit Opportunity Act of 1974, as amended, and Regulation B promulgated thereunder, the Fair Credit Reporting Act, as amended, the Real Estate Settlement Procedures Act of 1974, as amended, and Regulation X promulgated thereunder, and the Home Mortgage Disclosure Act of 1975, as amended. The Equal Credit Opportunity Act prohibits creditors from discriminating against applicants on the basis of race, color, sex, age, religion, national origin or marital status if all or part of the applicant s income is derived from a publicly assisted program or if the applicant has in good faith exercised any right under the Consumer Credit Protection Act. Regulation B restricts creditors from requesting certain types of information from loan applicants. The Fair Credit Reporting Act, as amended, requires lenders, among other things, to supply an applicant with certain information if the lender denied the applicant credit. The Real Estate Settlement Procedures Act mandates certain disclosures concerning settlement fees and charges and mortgage servicing transfer practices. It also prohibits the payment or receipt of kickbacks or referral fees in connection with the performance of settlement services. In addition, we are required to file an annual report with the Department of Housing and Urban Development pursuant to the Home Mortgage Disclosure Act, which requires the collection and reporting of statistical data concerning mortgage loan transactions.

In the course of our business, we may acquire properties securing loans that are in default. There is a risk that hazardous or toxic waste could be found on such properties. If this occurs, we could be held responsible under applicable law for the cost of cleaning up or removing the hazardous waste. This cost could exceed the value of the underlying properties.

Regulatory Developments

During 2000, federal and state legislative and regulatory developments regarding consumer privacy and predatory lending could have a significant impact on our future business activities. The federal Gramm-Leach-Bliley financial reform legislation imposes additional privacy obligations on us with respect to our applicants and borrowers. We adopted a new privacy policy and adopted controls and procedures in order to comply with the law when it took effect on July 1, 2001. In addition, several states are considering even more stringent privacy legislation. If passed, a variety of inconsistent state privacy legislation could substantially increase our compliance costs.

Several federal, state and local laws and regulations have been adopted or are under consideration that are intended to eliminate so-called predatory lending practices. Many of these laws and regulations impose broad restrictions on certain commonly accepted lending practices, including some of our practices. There can be no assurance that these proposed laws, rules and regulations, or other similar laws, rules or regulations, will not be adopted in the future. Adoption of these laws and regulations could have a material adverse impact on our business by substantially increasing the costs of compliance with a variety of inconsistent federal, state and local rules, or by restricting our ability to charge rates and fees adequate to compensate us for the risk associated with certain loans.

In an effort to prevent the origination of loans containing unfair terms or involving predatory practices, we have employed extensive policies and procedures, including:

- not offering loans with terms providing for balloon payments, negative amortization or reverse mortgages;

- only approving loan applications that evidence a borrower s ability to repay the loan;

- confirming that all loans we originate present a tangible benefit to the borrower;
- not re-soliciting our own borrowers to refinance frequently;
- not selling single premium insurance products with our loans;
- maintaining caps on the points and fees that can be charged to borrowers;
- offering loans with and without prepayment penalties;
- directing marketing efforts throughout the broader geographic areas in which our branches are located;
- maintaining a rigorous appraisal review process;
- surveying our customers in order to confirm satisfaction;
- performing regular random and targeted audits to confirm adherence to fair lending laws and principles;
- monitoring the conduct of our brokers and requiring them to agree to adhere to our Broker Code of Conduct;
- resolving customer complaints promptly and fairly; and
- training our employees to adhere to fair lending principles.

We plan to continue to review, revise and improve our practices in order to enhance our fair lending efforts and support the goal of eliminating predatory lending practices.

Employees

At December 31, 2001, we employed 1,512 full-time employees and 19 part-time employees. None of our employees is subject to a collective bargaining agreement. We believe that our relations with our employees are satisfactory.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth information about our executive officers:

Name	Age	Position
Executive Officers:		
Robert K. Cole	55	Chairman of the Board and Chief Executive Officer of the Company; Director, New Century Mortgage(1)
Brad A. Morrice	45	Vice Chairman, President, Chief Operating Officer and Director of the Company; Chairman and Chief Executive Officer, New Century Mortgage (1); Chairman and Chief Executive Officer, NC Capital(2)
Edward F. Gotschall	47	Vice Chairman, Chief Financial Officer and Director of the Company; Chief Financial Officer and Treasurer of New Century Mortgage(1)
Patrick J. Flanagan	37	Executive Vice President of the Company; President and Director, New Century Mortgage (1); and Director, NC Capital(2)

(1) New Century Mortgage Corporation (New Century Mortgage) is a wholly-owned subsidiary of the Company.

(2) NC Capital Corporation (NC Capital) is a wholly-owned subsidiary of New Century Mortgage.

Robert K. Cole, one of our co-founders, has been our Chairman of the Board and Chief Executive Officer since December 1995 and one of our directors since November 1995. Mr. Cole also serves as a director on the Board of Directors of New Century Mortgage. From February 1994 to March 1995, he was the President and Chief Operating Officer-Finance of Plaza Home Mortgage Corporation, a publicly-traded savings and loan holding company specializing in the origination and servicing of residential mortgage loans. In addition, Mr. Cole served as a director of Option One Mortgage Corporation, a subsidiary of Plaza Home Mortgage specializing in the origination, sale and servicing of non-prime mortgage loans. Previously, Mr. Cole was the President of operating subsidiaries of NBD Bancorp and Public Storage. Mr. Cole received a Masters of Business Administration degree from Wayne State University.

Brad A. Morrice, one of our co-founders, has been our Vice Chairman since December 1996, our President, and one of our directors since November 1995 and our Chief Operating Officer since January 2001. Mr. Morrice also served as our General Counsel from December 1995 to December 1997 and our Secretary from December 1995 to May 1999. In addition, Mr. Morrice serves as Chairman and Chief Executive Officer of New Century Mortgage and NC Capital. From February 1994 to March 1995, he was the President and Chief Operating Officer-Administration of Plaza Home Mortgage, after serving as its Executive Vice President, Chief Administrative Officer since February 1993. In addition, Mr. Morrice served as General Counsel and a director of Option One. From August 1990 to January 1993, Mr. Morrice was a partner in the law firm of King, Purtich & Morrice, where he specialized in the legal representation of mortgage banking companies. Mr. Morrice previously practiced law at the firms of Fried, King, Holmes & August and Manatt, Phelps & Phillips. He received his law degree from the University of California, Berkeley (Boalt Hall) and a Masters of Business Administration degree from Stanford University.

Edward F. Gotschall, one of our co-founders, has been our Vice Chairman since December 1996, our Chief Financial Officer since August 1998, our Chief Operating Officer Finance/Administration from December 1995 to August 1998 and one of our directors since November 1995. Mr. Gotschall also serves as Chief Financial Officer and a director of New Century Mortgage. From April 1994 to July 1995, he was the Executive Vice President/Chief Financial Officer of Plaza Home Mortgage and a director of Option One. In December 1992, Mr. Gotschall was one of the co-founders and principal architect of the initial business plan for Option One and served as its Executive Vice President/Chief Financial Officer until April 1994. From January 1991 to July 1992, he was the Executive Vice President and Chief Financial Officer of The Mortgage Network, a retail mortgage banking company. Mr. Gotschall received his Bachelors of Science Degree in Business Administration from Arizona State University and received his CPA designation during his employment term with Touche Ross (now Deloitte & Touche) in Phoenix, Arizona.

Patrick J. Flanagan has been our President of New Century Mortgage Corporation since February 2002. He has also been Executive Vice President of the Company since August 1998. From December 1998 to February 2002 he served as President of NC Capital Corporation. He has been a director of New Century Mortgage since May 1997. From January 1997 to February 2002, Mr. Flanagan has been Executive Vice President and Chief Operating Officer of New Century Mortgage. Mr. Flanagan initially joined New Century Mortgage in May 1996 as Regional Vice President of Midwest Wholesale and Retail Operations. From August 1994 to April 1996, Mr. Flanagan was a Regional Manager with Long Beach Mortgage. From July 1992 to July 1994, he was an Assistant Vice President for First Chicago Bank, from February 1989 to February 1991, he was Assistant Vice President for Banc One in Chicago and from February 1991 to July 1992, he was a Business Development Manager for Transamerica Financial Services. Mr. Flanagan received his Bachelor of Arts degree from Monmouth College.

RISK FACTORS

Stockholders and prospective purchasers of our common stock should carefully consider the risks described below before making a decision to buy our common stock. If any of the following risks actually occurs, our business could be harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. When determining whether to buy our common stock, stockholders and prospective purchasers should also refer to the other information in this Form 10-K, including our financial statements and the related notes.

A change in the assumptions we use to determine the value of our residual interests could adversely affect our financial position.

As of December 31, 2001, the value of our residual interests from securitization transactions on our balance sheet was $306.9 million. The value of these residuals is a function of the delinquency, loss, prepayment and discount rate assumptions we use to determine their value. During 2000, we changed these assumptions to reflect trends in actual pool performance, prepayment experience and the interest rate environment. As a result of these changes, we recorded reductions in the value of our residuals of $67.0 million. The reductions consisted of the following components:

$25.6 million resulted from changes to the prepayment and loss assumptions used in the valuation of the residual interests;

$14.5 million resulted from a change in the discount rate on our residuals from 12% to 13% and on our NIM bonds from 14% to 15%; and

$26.9 million resulted from the exercise by Salomon Smith Barney, Inc. of the call provision for our 1998-NC5 security in December 2000. We do not have any other residual interests that have a call provision similar to 1998-NC5.

In 2001, we increased the loss and delinquency assumptions we use to value our residuals to match the trends we were observing in the actual performance of the underlying pools of mortgages. However, significant declines in interest rates resulted in a compensating increase in the anticipated cash flow from the residuals. As a result, we did not need to adjust the overall value of our residuals.

In the future, if our actual experience differs materially from the revised prepayment, delinquency, loss and interest rate assumptions we used to calculate residual value, future cash flows and earnings could be negatively affected.

A prolonged economic slowdown or a lengthy or severe recession could hurt our operations, particularly if it results in a decline in the real estate market.

The risks associated with our business are more acute during periods of economic slowdown or recession because these periods may be accompanied by decreased demand for consumer credit and declining real estate values. Declining real estate values reduce the ability of borrowers to use home equity to support borrowings because they negatively affect loan-to-value ratios of the home equity collateral. In addition, because we make a substantial number of loans to credit-impaired borrowers, the actual rates of delinquencies, foreclosures and losses on these loans could be higher during economic slowdowns. Any sustained period of increased delinquencies, foreclosures or losses could adversely affect our ability to sell loans, the prices we receive for our loans, or the value of our residual interests in securitizations, which could have a material adverse effect on our results of operations, financial condition and business prospects.

High delinquencies or losses on the mortgage loans in our securitizations may decrease our cash flows or impair our ability to sell or securitize loans in the future.

Loans we make to lower credit grade borrowers, including credit-impaired borrowers, entail a higher risk of delinquency and higher losses than loans we make to borrowers with better credit. Virtually all of our loans are made to borrowers who do not qualify for loans from conventional mortgage lenders. No assurance can be given that our underwriting criteria or methods will afford adequate protection against the higher risks associated with loans made to lower credit grade borrowers. We continue to be subject to risks of default and foreclosure following the sale of loans through securitization. To the extent such losses are greater than expected, the cash flows we receive through residual interests would be reduced. Increased delinquencies or losses may also reduce our ability to sell or securitize loans in the future. Any such reduction in our cash flows or impairment in our performance could have a material adverse effect on our results of operations, financial condition and business prospects.

Our earnings may decrease because of increases or decreases in interest rates.

Our profitability may be directly affected by changes in interest rates. First, these changes may reduce the spread we earn between the interest we receive on our loans and our funding costs. Second, a substantial and sustained increase in interest rates could adversely affect borrower demand for our products. Third, during periods of rising interest rates, the value and profitability of our loans may be negatively affected from the date of origination or purchase until the date we sell or securitize the loan. Fourth, our adjustable-rate mortgage loans have periodic and lifetime interest rate caps above which the interest rate on the loans may not rise. In the event of general interest rate increases, the rate of interest on these mortgage loans could be limited, while the rate payable on the senior certificates representing interests in a securitization trust into which these loans are sold may be uncapped. This would reduce the amount of cash we receive over the life of our residual interests, and require us to reduce the carrying value of our residual interests. Fifth, a significant decrease in interest rates could increase the rate at which loans are prepaid, which also could require us to reduce the carrying value of our residual interests. If prepayments are greater than expected, the cash we receive over the life of our residual interests would be reduced. Any such change in interest rates could have a material adverse effect on our results of operations, financial condition and business prospects.

If we are unable to maintain adequate financing sources, our earnings and financial position will suffer and jeopardize our ability to continue operations.

We require substantial cash to support our operating activities and growth plans, which is provided primarily by $1.7 billion in short-term warehouse and aggregation credit facilities to fund loan originations and purchases pending the pooling and sale of such loans. We also have residual financing agreements that provide us with financing secured by residual interests we have retained in certain securitization transactions and securitization transactions involving net interest margin securities, or NIMs. If we cannot maintain or replace these facilities on comparable terms and conditions, we may incur substantially higher interest expense that would reduce our profitability.

During volatile times in the capital markets, access to warehouse, aggregation and residual financing has been severely constricted. If we are unable to maintain adequate financing or other sources of capital are not available, we would be forced to suspend or curtail our operations, which would have a material adverse effect on our results of operations, financial condition and business prospects.

An interruption or reduction in the securitization and whole loan markets would hurt our financial position.

We are dependent on the securitization market for the sale of our loans because we securitize loans directly and many of our whole loan buyers purchase our loans with the intention to securitize. The securitization market is dependent upon a number of factors, including general economic conditions, conditions in the securities market generally and conditions in the asset backed securities market specifically. In addition, poor performance of our previously securitized loans could harm our access to the securitization market. Accordingly, a decline in the securitization market or a change in the market s demand for our loans could have a material adverse effect on our results of operations, financial condition and business prospects.

Our inability to realize cash proceeds from loan sales and securitizations in excess of the loan acquisition cost could adversely affect our financial position.

The net cash proceeds received from loan sales consist of the premiums we receive on sales of loans in excess of the outstanding principal balance, plus the cash proceeds we receive from securitizations, minus the discounts on loans that we have to sell for less than the outstanding principal balance. If we are unable to originate loans at a cost lower than the cash proceeds realized from loan sales, our results of operations, financial condition and business prospects could be materially adversely affected.

Our warehouse and aggregation financing is subject to margin calls based on the lender s opinion of the value of our loan collateral. An unanticipated large margin call could adversely affect our liquidity.

The amount of financing we receive under our warehouse and aggregation financing agreements depends in large part on the lender s valuation of the mortgage loans that secure the financings. Each such credit facility provides the lender the right, under certain circumstances, to reevaluate the loan collateral that secures our outstanding borrowings at any time. In the event the lender determines that the value of the loan collateral has decreased, it has the right to initiate a margin call. A margin call would require us to provide the lender with additional collateral or to repay a portion of the outstanding borrowings. Any such margin call could have a material adverse effect on our results of operations, financial condition and business prospects.

Our business is dependent upon conditions in California where we conduct a significant amount of our business.

In 2001, approximately 43.6% of the mortgage loans we originated or purchased were secured by property in California. An overall decline in the economy or the residential real estate market, or the occurrence of a natural disaster, such as an earthquake, or a major terrorist attack in California could adversely affect the value of the mortgaged properties in California and increase the risk of delinquency, foreclosure, bankruptcy, or loss on mortgage loans in our portfolio. This would negatively affect our ability to purchase, originate and securitize mortgage loans, which could have a material adverse effect on our business, financial condition and results of operations.

In 2001, California experienced energy shortages. As a result, energy costs, including natural gas and electricity, may increase significantly in the future. There may also be limitations in the amount of energy resulting in power blackouts during short periods of time. Therefore, because our headquarters, a substantial number of our branch offices and some of the independent brokers in our wholesale network are based in California, our operations may be disrupted and operating expenses may increase in the future. Any such disruption or increase in expenses could be material and could adversely affect our loan originations, margins and our profitability. To date, we have not experienced material increases in our overall operating expenses. However, if the power outages associated with the energy crisis continue or become more severe, we could experience material disruptions or cost increases in the future, which could have a material adverse effect on our results of operations, financial condition and business prospects.

Many of our competitors are larger and have greater financial resources than we do, which could make it difficult for us to compete successfully, and we could face new competitors.

We face intense competition in the business of originating, purchasing and selling mortgage loans. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. In addition, certain government-sponsored entities, such as Fannie Mae and Freddie Mac, are beginning to purchase some categories of non-prime loans, which may cause new competitors to enter our market and reduce our profit margins.

Certain large finance companies and conforming mortgage originators also originate non-prime mortgage loans to customers similar to the borrowers we serve. Competitors with lower costs of capital have a competitive advantage over us. In addition, establishing a wholesale lending operation such as ours requires a relatively small commitment of capital and human resources. This low barrier to entry permits new competitors to enter our markets quickly and compete with our wholesale lending business. Several new wholesale originators have been formed in recent quarters and have recruited former senior managers from our wholesale division. If these competitors are able to attract some of our key employees and disrupt our broker relationships, it could have a material adverse effect on our results of operations, financial condition and business prospects.

Changes in the volume and cost of loans originated by our wholesale division may decrease our loan production and decrease our earnings.

We depend primarily on independent mortgage brokers and, to a lesser extent, on correspondent lenders for the origination and purchase of our wholesale mortgage loans, which constitute the majority of our loan production. These independent mortgage brokers have relationships with multiple lenders and are not obligated by contract or otherwise to do business with us. We compete with these lenders for the independent brokers business on pricing, service, loan fees, costs and other factors. Competition from other lenders and purchasers of mortgage loans could negatively affect the volume and pricing of our wholesale loans, which could have a material adverse effect on our results of operations, financial condition and business prospects.

A decline in the quality of servicing could lower the value of our residual interests and our ability to sell or securitize loans.

In March 2001, we sold to Ocwen Federal Bank FSB, the servicing rights on $4.8 billion of our servicing portfolio which was comprised of 25 separate asset-backed securities. In August 2001, Ocwen began servicing all of our newly originated loans pending their sale or securitization. In February 2002, we announced the intent to re-establish our loan servicing platform and have begun to add the necessary infrastructure. Ocwen will continue to service the mortgage loans in our existing securities. See Part I, Item 1. Business Loan Servicing and Delinquencies. Poor servicing and collections could adversely affect the value of our residual interests and our ability to sell or securitize loans, which could have a material adverse effect on our results of operations, financial condition and business prospects.

We may be required to repurchase mortgage loans or indemnify investors if we breach representations and warranties, which could adversely impact our earnings.

When we sell loans, we are required to make customary representations and warranties about such loans to the loan purchaser. Our whole loan sale agreements require us to repurchase or substitute loans in the event we breach a representation or warranty given to the loan purchaser or make a misrepresentation during the mortgage loan origination process. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of early payment default on a mortgage loan. Likewise, we are required to repurchase or substitute loans if we breach a representation or warranty in connection with our securitizations. The remedies available to a purchaser of mortgage loans are generally broader than those available to us against the originating broker or correspondent. Further, if a purchaser enforces its remedies against us, we may not be able to enforce the remedies we have against the sellers. The repurchased loans typically can only be financed at a steep discount to their repurchase price, if at all. They are also typically sold at a significant discount to the unpaid principal balance. Significant repurchase activity could negatively affect our cash flow and results of operations.

New legislation could restrict our ability to make mortgage loans, which could adversely impact our earnings.

Several states and cities are considering or have passed laws, regulations or ordinances aimed at curbing predatory lending practices. The federal government is also considering legislative and regulatory proposals in this regard. In general, these proposals involve lowering the existing federal Homeownership and Equity Protection Act thresholds for defining a high-cost loan, and establishing enhanced protections and remedies for borrowers who receive such loans. However, many of these laws and rules extend beyond curbing predatory lending practices to restrict commonly accepted lending activities, including some of our activities. For example, some of these laws and rules prohibit any form of prepayment charge or severely restrict a borrower s ability to finance the points and fees charged in connection with his or her loan. Passage of these laws and rules could reduce our loan origination volume. In addition, for reputation reasons and because of the enhanced risk, many whole loan buyers elect not to purchase any loan labeled as a high cost loan under any local, state or federal law or regulation. Accordingly, these laws and rules could severely constrict the secondary market for a significant portion of our loan production. This would effectively preclude us from continuing to originate loans that fit within the newly defined thresholds and would have a material adverse effect on our results of operations, financial condition and business prospects.

If many of our borrowers become subject to the Soldiers and Sailors Civil Relief Act of 1940, our cash flows from our residual securities may be adversely affected.

Under the Soldiers and Sailors Civil Relief Act of 1940, a borrower who enters military service after the origination of his or her mortgage loan generally may not be charged interest above an annual rate of 6% during the period of the borrower s active duty status. The Act also applies to a borrower who was on reserve status and is called to active duty after origination of the mortgage loan. A significant military mobilization as part of the war on terrorism could increase the number of the borrowers in our securitized pools who are subject to this Act and thereby reduce the interest payments collected from those borrowers. To the extent the number of borrowers who are subject to this Act is significant, the cash flows we receive through residual interests would be reduced, which would cause us to reduce the carrying value of our residual interests. Any such reduction in our cash flows or impairment in our performance could have a material adverse effect on our results of operations, financial condition and business prospects.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may foreclose and take title to residential properties, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

Our charter and bylaws and Delaware law contain provisions that could discourage a takeover.

Our amended and restated certificate of incorporation and our amended and restated bylaws include various provisions that could delay, defer or prevent a takeover attempt that may be in the best interest of our stockholders. These provisions include the existence of a classified board of directors, the ability of our board of directors to issue additional shares of our preferred stock without any further stockholder approval and requirements that (i) our stockholders give advance notice with respect to certain proposals they may wish to present for a stockholder vote, (ii) our stockholders act only at annual or special meetings and (iii) two-thirds of all directors approve a change in the number of directors on our board of directors. Issuance of our preferred stock could also discourage bids for the common stock at a premium as well as create a depressive effect on the market price of our common stock. In addition, provisions in our 1998 transaction with U.S. Bancorp that provide U.S. Bancorp with certain preemptive rights and anti-dilutive adjustments to its shares may discourage takeover attempts by third parties.

We are also subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder. The preceding provisions of our charter and bylaws, as well as Section 203 of the Delaware General Corporation Law, could discourage potential acquisition proposals, delay or prevent a change of control and prevent changes in our management.

The concentrated ownership of our voting stock by a small group of our stockholders may have an adverse effect on your ability to influence the direction we will take.

According to the most recently available SEC filings, a small group of our stockholders, comprised of our management team and directors, U.S. Bancorp and Brookhaven Capital, continue to beneficially own an aggregate of approximately 64% of the total voting power of our voting stock. These stockholders, if they were to act in concert, would have majority control and would have the ability to control the approval of certain fundamental corporate transactions (including mergers, consolidations and sale of assets) and to elect all of the members of our board of directors, whether or not their actions are in the best interests of our other stockholders.

Various factors may cause the market price of our common stock to become volatile, which could adversely affect our ability to access the capital markets in the future.

The market price of our common stock may experience fluctuations that are unrelated to our operating performance. In particular, the price of our common stock may be affected by general market price movements as well as developments specifically related to the consumer finance industry and the financial services sector. These could include, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts, or a significant reduction in the price of the stock of another participant in the consumer finance industry. This volatility may make it difficult for us to access the capital markets through additional secondary offerings of our common stock, regardless of our financial performance.

Item 2. *Properties*

Our executive, administrative offices and some of our lending offices are located in Irvine, California and consist of approximately 222,000 square feet. The three leases covering the executive, administrative and lending offices expire in June 2002, December 2002 and October 2005, respectively, and the combined monthly rent is $435,900. We have entered into a letter of intent to renew the lease that expires in June 2002. We lease space for our regional operating centers in Schaumburg, Illinois, Rancho Bernardo and San Ramon, California, Tampa, Florida and Greenwood Village, Colorado and Ft. Worth, Texas. As of December 31, 2001, these facilities had a monthly aggregate base rental of approximately $85,800. We also lease space for our sales offices, which range in size from 140 to 2,928 square feet with lease terms typically ranging from one to five years. As of December 31, 2001, annual base rents for the sales offices ranged from approximately $6,000 to $85,000. In general, the terms of these leases expire between February 2002 and November 2005. We are currently in negotiations to renew nine office leases expiring between February 2002 and June 2002.

Item 3. *Legal Proceedings*

FTC Inquiry. In August 2000, we were informed by the Federal Trade Commission that it was conducting an inquiry to determine whether we had violated the Fair Credit Reporting Act, Federal Trade Commission Act or other statutes administered by the Commission. The Commission subsequently focused its inquiry on whether the pre-approved credit solicitations our retail units generated comply with applicable law. We are cooperating with the inquiry and the Commission is reviewing data and information we have provided to it.

Matthews, et al. In October 2000, Hazel Jean Matthews, Ruth D. Morgan and Marie I. Summerall filed an amended class action suit against New Century Mortgage Corporation, Central Mortgage, Equibanc Mortgage Corporation, Century 21 Home Improvements, and Incredible Exteriors, on behalf of themselves and other consumers located in the State of Ohio whose credit transaction was brokered by Equibanc and Central

Mortgage. We were not named in the original complaint. The suit was filed in the Ohio state court and later removed by New Century Mortgage to the U.S. District Court for the Southern District of Ohio. The complaint alleges breaches of the Federal Fair Housing Act, Equal Credit Opportunity Act, Truth in Lending Act, gender discrimination, fraud, unconscionability, civil conspiracy, RICO, as well as other claims against the other defendants. The plaintiffs are seeking injunctive relief, compensatory and punitive damages, attorneys fees and costs. We filed a motion to dismiss this complaint in December 2000. Plaintiffs filed their Second Amended Complaint in May 2001. We filed a second motion to dismiss all claims in late August 2001. The judge granted the motion in part, and denied in part, dismissing the claims brought under the Fair Housing Act, 42 U.S.C. § 3604(b). Plaintiffs filed a motion to strike the class allegations on October 2, 2001; the judge granted the motion. The case will proceed as to the individual plaintiffs.

Fairbanks. In May 2001, Fairbanks Capital initiated arbitration against New Century Mortgage Corporation for breach of contract, breach of implied covenant of good faith, fraud and negligent misrepresentation stemming from our decision to sell our servicing rights to Ocwen Federal Bank FSB instead of closing a sub-servcing arrangement that we had negotiated with Fairbanks. Fairbanks sought damages of approximately $3.9 million notwithstanding the fact that we paid Fairbanks a $750,000 break-up fee as specified in our agreement. The arbitration hearing took place in September. In November, the arbitrator issued his award in favor of New Century, finding that Fairbanks was not entitled to any monies other than the previously tendered break-up fee.

Grimes. In June 2001, we were served with a class action complaint filed by Richard L. Grimes and Rosa L. Grimes against New Century Mortgage Corporation. The action was filed in the U.S. District Court for the Northern District of California, and seeks rescission, restitution and damages on behalf of the two plaintiffs, others similarly situated and on behalf of the general public. The complaint alleges a violation of the Federal Truth in Lending Act (TILA) and Business & Professions Code § 17200. Specifically, the complaint alleges that we gave the borrowers the required three-day notice of their right to rescind before the loan transaction had technically been consummated. We filed our answer in July 2001. We filed a motion for Summary Judgment which was granted on January 25, 2002. The judge held that New Century had not violated TILA and dismissed the § 17200 claim without prejudice.

Perry. In July 2001, Charles Perry Jr. filed a class action complaint against New Century Mortgage Corporation and Noreast Mortgage Company, Inc. in the U.S. District Court for the District of Massachusetts. The complaint alleges that certain payments we make to mortgage brokers, sometimes referred to as yield spread premiums, violate the federal Real Estate Settlement Procedures Act. The complaint also alleges that New Century Mortgage Corporation induced mortgage brokers to breach their fiduciary duties to borrowers. We filed our answer in September 2001. We believe the allegations lack merit, especially in light of HUD s October policy statement upholding the use of yield spread premiums, and will defend ourselves vigorously.

Smith. In August 2001, a former employee named Dean Smith filed a class action complaint against New Century Financial Corporation and New Century Mortgage Corporation for alleged unpaid overtime, penalties and damages on behalf of himself and other loan officers. We filed an answer in September 2001, and we intend to defend the action vigorously.

Ngo. In November 2001, Shirley H. Ngo filed a class action complaint against New Century Mortgage Corporation in the U.S. District Court for the Northern District of Georgia. The complaint alleges that payments we make to mortgage brokers, referred to as yield spread premiums, violate the federal Real Estate Settlement Procedures Act. We filed our answer as well as a motion to stay the action.

Barney. In December 2001, Sandra Barney filed a class action complaint against New Century Mortgage Corporation in the Circuit Court in Cook County, Illinois. The complaint alleges the unauthorized practice of law and violation of the Illinois Consumer Fraud Act for performing document preparation services for a fee by non-lawyers, and seeks to recover the fees charged for the document preparation, compensatory and punitive damages, attorneys fees and costs. Our response is due in late February 2002.

We are also a party to various legal proceedings arising in the ordinary course of our business. Management believes that any liability with respect to these legal actions, individually or in the aggregate, will not have a material adverse effect on our business, results of operations or financial position.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of our stockholders during the fourth quarter of 2001.

PART II

Item 5. ***Market for the Registrant s Common Equity and Related Stockholder Matters***

Our common stock trades on the Nasdaq National Market under the symbol NCEN. The high and low bid prices of our common stock during each quarter for the fiscal years 2001 and 2000 were as follows:

	Fiscal 2001		Fiscal 2000	
Quarter	**High**	**Low**	**High**	**Low**
Fourth	$ 14.02	$ 9.26	$ 12.50	$ 9.75
Third	$ 12.00	$ 8.65	$ 14.25	$ 7.13
Second	$ 10.60	$ 6.59	$ 10.13	$ 5.06
First	$ 11.00	$ 6.00	$ 15.75	$ 6.13

As of February 14, 2002, the closing sales price of our common stock, as reported on the Nasdaq National Market, was $14.14.

We paid a cash dividend on our common stock on January 31, 2002, at $0.05 per share for common stockholders of record as of January 15, 2002. The declaration of any future dividends will be subject to our earnings, financial position, capital requirements, contractual restrictions and other relevant factors.

As of February 14, 2002, the number of holders of record of our common stock was approximately 87.

Recent Sales of Unregistered Stock

On January 1, 2001, we issued 11,919 shares of common stock to David R. McGee and Melinda L. McGee, Trustees of the David R. McGee and Melinda L. McGee Living Trust dated May 1, 1998 representing $125,000 of the deferred purchase price for the acquisition of Worth Funding Incorporated. The sale and issuance of the shares were exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act and Regulation D thereunder.

Item 6. ***Selected Financial Data (dollars in thousands, except per share data)***

The following selected consolidated statements of operations and balance sheet data for the years ending December 31, 2001, 2000, 1999, 1998 and 1997 have been derived from our financial statements audited by KPMG LLP, independent auditors, whose report with respect thereto appears elsewhere herein. Such selected financial data should be read in conjunction with those financial statements and the notes thereto and with Management s Discussion and Analysis of Financial Condition and Results of Operations also included elsewhere herein.

	For the Year Ended December 31, 2001	For the Year Ended December 31, 2000	For the Year Ended December 31, 1999	For the Year Ended December 31, 1998	For the Year Ended December 31, 1997
	(dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Gain on sales of loans	$ 182,612	$ 14,952	$ 121,672	$ 105,060	$ 67,939
Interest income	62,706	67,351	61,457	47,655	25,071
Residual interest income	36,356	49,868	27,385	14,620	5,038
Servicing income	10,616	30,092	23,428	9,072	585
Other income	1,046	1,653			
Total revenues	293,336	163,916	233,942	176,407	98,633
Expenses	209,852	200,697	167,056	124,099	68,041
Earnings (loss) before income taxes	83,484	(36,781)	66,886	52,308	30,592
Income taxes (benefit)	35,464	(13,756)	27,377	21,193	12,849
Net earnings (loss)	$ 48,020	$ (23,025)	$ 39,509	$ 31,115	$ 17,743
Basic earnings (loss) per share	$ 2.74	$ (1.76)	$ 2.59	$ 2.19	$ 2.18
Diluted earnings (loss) per share	$ 2.28	$ (1.76)	$ 2.11	$ 2.03	$ 1.40

	As of December 31, 2001	As of December 31, 2000	As of December 31, 1999	As of December 31, 1998	As of December 31, 1997
	(dollars in thousands)				
Balance Sheet Data:					
Loans receivable held for sale, net	$ 1,011,122	$ 400,089	$ 442,653	$ 356,975	$ 276,506
Residual interests in securitizations	306,908	361,646	364,689	205,395	97,260
Total assets	1,451,318	837,161	863,709	624,727	398,128
Borrowings under warehouse lines of credit	506,808	201,705	234,778	191,931	184,426
Borrowings under aggregation lines of credit	480,760	202,741	193,948	153,912	70,937
Subordinated debt	40,000	40,000	20,000		
Residual financing	79,941	176,806	177,493	122,298	53,427
Other liabilities	96,048	63,760	64,527	41,973	28,502
Total stockholders equity	247,761	152,149	172,963	114,613	60,836

	As of or For the Year Ended December 31, 2001	As of or For the Year Ended December 31, 2000	As of or For the Year Ended December 31, 1999	As of or For the Year Ended December 31, 1998	As of or For the Year Ended December 31, 1997
			(dollars in thousands)		
Operating Statistics:					
Loan origination and purchase activities:					
Wholesale originations	$ 5,068,466	$ 3,041,761	$ 2,894,517	$ 2,382,784	$ 1,265,133
Retail originations	1,176,505	1,110,596	1,185,747	942,072	578,674
Bulk acquisitions					120,794
Total loan originations and purchases	$ 6,244,971	$ 4,152,357	$ 4,080,264	$ 3,324,856	$ 1,964,601
Average principal balance per loan	$ 138	$ 108	$ 102	$ 96	$ 102
Percent of loans secured by first mortgage	99.3%	95.3%	96.7%	97.2%	96.9%
Weighted average initial loan-to-value ratio	78.7%	78.6%	78.8%	78.2%	74.0%
Originations by product type					
ARMs	$ 5,101,783	$ 3,052,481	$ 2,610,475	$ 1,920,686	$ 1,394,133
Fixed-rate mortgages	1,143,188	1,099,876	1,469,789	1,404,170	570,468
Weighted average interest rates:					
Fixed-rate mortgages	9.5%	11.0%	10.2%	10.0%	9.8%
ARMs	9.4%	10.4%	9.8%	9.7%	9.5%
Margin-ARMs	6.6%	6.2%	6.2%	6.1%	7.0%
Loan Sales:					
Loans sold through whole loan transactions	$ 4,723,350	$ 3,133,205	$ 1,033,006	$ 1,477,225	$ 680,900
Loans sold through securitizations	898,244	1,029,477	3,017,658	2,265,700	1,123,618
Loans acquired to securitize			(61,312)	(544,704)	(63,718)
Net Loan Sales	$ 5,621,594	$ 4,162,682	$ 3,989,352	$ 3,198,221	$ 1,740,800

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes contained elsewhere herein.

General

We are a leading nationwide specialty mortgage banking company that originates, purchases and sells residential mortgage loans secured primarily by first mortgages on single family residences. Our borrowers generally have considerable equity in the property securing the loan, but have impaired or limited credit profiles or higher debt-to-income ratios than traditional mortgage lenders allow. Our borrowers also include individuals who, due to self-employment or other circumstances, have difficulty verifying their income, as well as individuals who prefer the prompt and personalized service we provide. We originate and purchase loans through our wholesale and retail channels. Wholesale originations and purchases are through independent mortgage brokers who provide loans through the Wholesale Division of our wholly-owned subsidiary, New Century Mortgage Corporation, as well as its subsidiary, Worth Funding. We do not purchase bulk pools of loans. Retail originations are made through New Century Mortgage Corporation s network of branch offices, through its Central Retail Division and through our strategic alliance program under The Anyloan Company. After originating or purchasing loans, we then sell those loans through whole loan sales or securitizations. We were incorporated in Delaware in November 1995 and commenced lending operations in February 1996.

Loan Originations and Purchases

As of December 31, 2001, our Wholesale Division operated through five regional operating centers and 31 additional sales offices. The Wholesale Division and our Worth Funding subsidiary originated or purchased $5.1 billion in loans during the year ended December 31, 2001. As of December 31, 2001, our Retail Branch Operations Division operated through 65 sales offices and our Central Retail Division and The Anyloan Company operated through their centralized offices. Retail originations totaled $1.2 billion in loans during the year ended December 31, 2001.

Loan Sales and Securitizations

One of our primary sources of revenue is the recognition of gain on sale of our loans through whole loan sales and securitizations. In a whole loan sale, we recognize and receive a cash gain upon sale. In a securitization, we recognize a gain on sale at the time the loans are sold, and receive cash flows over the actual life of the loans. The use of a net interest margin security, or NIM, transaction concurrent with or shortly after a securitization allows us to receive a substantial portion of the gain in cash at the closing of the NIM transaction, rather than over the actual life of the loans.

Prior to 2000, our loan sale strategy typically included both securitizations and whole loan sales in order to achieve our goal of enhancing profits while managing cash flows. Because residual financing was readily available, we securitized a significant percentage of our loan production in order to enhance operating profits and to benefit from future cash flows generated by the residual interests we retained. The remainder of our production was sold in whole loan sale transactions, which allowed us to generate current cash flow, protect against the potential volatility of the securitization market and reduce the risks inherent in retaining residual interests in securitizations.

In 2000, we were unable to obtain the same level of residual financing previously available to us. As a result, and in order to manage cash flows, we transitioned from securitizing the majority of our loans to selling the majority of production for cash in whole loan sales.

Market changes in 2001 have allowed us to sell loans through securitization on a cash flow-positive basis through the concurrent use of a NIM transaction. During 2001, we completed two securitizations of fixed- and adjustable-rate mortgage loans underwritten by Salomon Smith Barney, Inc. Following each securitization, we issued a NIM security. The net cash proceeds from the transactions yielded cash proceeds in an amount comparable to whole loan sales. In addition to the cash proceeds, we retained a relatively small residual interest that we recorded at its estimated fair value of less than 1.0% of the securitized collateral.

Residual Interests

In a securitization transaction, we sell a portfolio of mortgage loans to a special purpose entity established for the limited purpose of buying and reselling mortgage loans. The special purpose entity transfers the mortgage loans to a trust that in turn issues interest-bearing asset-backed securities generally in an amount equal to the aggregate principal balance of the mortgage loans. One or more investors purchase these asset-backed securities for cash. The trust uses the cash proceeds to pay us for the mortgage loans. The trust also issues a certificate representing a residual interest in the payments on the securitized loans. In addition, we provide credit enhancement for the benefit of the investors in the form of additional collateral, referred to as the over-collateralization account, or OC Account.

To date, we have elected to fund the required OC Account at the closing of most of our securitizations. The over-collateralization requirement ranges from 0.75% to 4.75% of the initial securitization bond debt principal balance, or 1.5% to 9.5% of the remaining principal balance after thirty to thirty-six months of principal amortization. The actual amount of the OC Account is determined by the rating agencies based upon their assessment of the loan pool characteristics. When funding all of the OC Account up front, we begin to receive cash flow from our residual interests immediately. When we do not fund the OC Account up front, we do not receive cash flow until the OC Account requirement is satisfied. Cash flows from our residual interests are subject to certain delinquency or credit loss tests, as defined by the rating agencies or the bond insurance companies. Over time, we receive distributions from the OC Account subject to the performance of the mortgage loans in each securitization.

At the closing of each securitization, we add to our balance sheet the residual interest retained based on our calculation of the present value of estimated future cash flows to be received by us. The residual interest we record consists of the OC Account and the net interest receivable, or NIR. Combined, these are referred to as the residual interests.

Management reviews on a quarterly basis the underlying assumptions used to value each residual interest and adjusts the carrying value of the securities based on actual experience and trends in the industry. To determine the residual asset value, cash flow is projected for each security. To project cash flow, we use base assumptions for the constant prepayment rate, or CPR, and losses for each product type based on historical performance. Each security is updated to reflect actual performance to date, and the base assumption for CPR and loss is then used to project performance of the security from that date forward. If the actual performance of the security differs materially from the base assumptions with respect to CPR or loss, adjustments are made. The London Interbank Offer Rate, or LIBOR, forward curve is then used to project future interest rates and finalize cash flow projections for each security. The projected cash flows are then discounted at a range of 13% 20%, depending on the risk profile of the retained interest, to establish the net book value of our residual interests.

During the second quarter of 2000, we recorded a $21.2 million write-down to our residual interests issued prior to 2000. This write-down resulted primarily from our decision to increase the discount rates used to value the residual interests. During the fourth quarter of 2000, we recorded a write-down of $45.8 million. Approximately $26.9 million of this write-down stemmed from Salomon Smith Barney s exercise of the call option in connection with our 1998-NC5 securitization transaction with Salomon. None of our other securitization transactions contains such a call feature. The remainder of the fourth quarter write-downs resulted from (i) a continuing increase in prepayment speeds, which occurred despite the increase in interest rates, and (ii) an increase in overall loss assumptions.

During the year ended December 31, 2001, based on recent historical experience, we increased the loss assumptions used to determine the value of our residual interests. However, the favorable interest rate environment and the current LIBOR forward curve resulted in an increase in the value of the residual interests that offset the loss in value related to the higher loss assumptions. Therefore, there was no adjustment to the carrying value of the residuals during the year ended December 31, 2001.

The following table sets forth loan sales and securitizations for the periods indicated:

	For the Year Ended December 31,		
	2001	2000	1999
		(in thousands)	
Securitizations	$ 898,244	$ 1,029,477	$ 3,017,658
Whole loan sales	4,723,350	3,133,205	1,033,006
Subtotal	5,621,594	4,162,682	4,050,664
Less: Loans acquired to securitize(1)			(61,312)
Net loan sales	$ 5,621,594	$ 4,162,682	$ 3,989,352

(1) Loans acquired to securitize represent loans sold back to us by whole loan investors for the purpose of securitizing those loans. These loan acquisitions are purchased at current market prices for such loans.

During the third quarter of 2000, we revised our underwriting guidelines to eliminate certain loans or loan attributes that our whole loan investors are not willing to buy. These guideline adjustments, such as the elimination of high-cost mortgages and loans to borrowers whose credit bureau scores are less than 500, were designed to allow us to originate the types of loans that are more closely aligned to the guidelines of our whole loan investors. We are continuing to focus on changes that will increase the percentage of our loans that are sold at a premium and reduce the severity of loss on loans sold at a discount.

During the year ended December 31, 2001, we sold approximately $236.7 million in loans at a discount to their outstanding principal balance. The majority of these loans were originated prior to December 31, 2000. These loans consisted of delinquent loans, loans with documentation defects or loans that were rejected by whole loan buyers because of certain characteristics. The weighted-average gain on sale on the whole loans we sold at a